



# **Review of South Carolina Electric & Gas Company's Gas Rate Stabilization Act Monitoring Report**



**SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**Review of South Carolina Electric & Gas Company's  
Gas Rate Stabilization Act Monitoring Report  
For the period ending March 31, 2017**

Pursuant to S.C. Code Ann. Sections 58-5-430 and 58-5-440

**September 1, 2017**

South Carolina Office of Regulatory Staff

1401 Main Street  
Suite 900  
Columbia, SC 29201  
(803) 737-0800

## Introduction

On February 16, 2005, the Natural Gas Rate Stabilization Act ("RSA"), S.C. Code Ann. § 58-5-400, was signed into law. The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the RSA, conducted an examination of South Carolina Electric and Gas Company's ("SCE&G" or "the Company") Monitoring Report for the twelve-month period ended March 31, 2017 ("Review Period"). The examination was conducted for the purpose of determining the Company's compliance with the provisions of the RSA.

Pursuant to the RSA, the Company must file Monitoring Reports with the Public Service Commission of South Carolina ("Commission") and the ORS on or before June fifteenth. In Docket No. 2017-6-G, SCE&G filed its Monitoring Report with the Commission on June 15, 2017 ("Request"). The Company reported in its March 31, 2017 Monitoring Report an adjusted rate of return and return on common equity of 7.19% and 8.42%, respectively. The Company's calculation of additional revenue requirements totaled \$9,022,098.

In accordance with the RSA, ORS's audit reports are provided to the Commission, the Company, and made available to all interested parties no later than September first. ORS's review of SCE&G's Monitoring Report focused on the Company's adherence to the RSA and applicable Commission Orders. This report details the results of ORS's examination.

## RSA Rates History

In accordance with the guidelines of the RSA, the Company is entitled to an adjustment in rates sufficient to achieve a return on common equity as set by previous Commission Order, currently 10.25%. Table 1 shows the requested and approved changes granted for several prior RSA filings and a comparison to the current filing.

**Table 1:**

| Docket No. | Order No. | Amount Requested | ORS Proposed Revenue | Amount Granted | Approved Return on Equity | Rates Effective |
|------------|-----------|------------------|----------------------|----------------|---------------------------|-----------------|
| 2013-6-G   | 2013-751  | \$0              | 0                    | \$0            | 10.13%                    | 11/1/2013       |
| 2014-6-G   | 2014-821  | (\$2,997,170)    | (\$2,647,323)        | (\$2,647,323)  | 10.25%                    | 11/1/2014       |
| 2015-6-G   | 2015-731  | \$0              | \$0                  | \$0            | 9.85%                     | 11/1/2015       |
| 2016-6-G   | 2016-704  | \$4,386,695      | \$4,086,147          | \$4,086,147    | 10.25%                    | 11/1/2016       |
| 2017-6-G   | TBD       | \$9,022,098      | \$8,633,538          | TBD            | 10.25%                    | 11/1/2017       |

## ORS Review

ORS examines the operating experience reported by the Company for the Review Period together with the associated revenue requirement calculations. The results of ORS's examination of the Monitoring Report and the underlying financial records through March 31, 2017, are contained in **Schedule 1**.

**Schedule 1** presents the Company's operating experience, rate base and rates of return for the Review Period, and the accounting and pro forma adjustments which ORS has determined are necessary to normalize the Company's operations.

Utilizing the per book rate base of \$590,139,003 and income of \$45,732,219, a rate of return was calculated on per book operations of 7.75% with a corresponding return on common equity of 9.48%. ORS accounting and pro forma adjustments decreased net income for return to \$42,597,554 and decreased rate base to \$588,953,024. A rate of return of 7.23% and a return on common equity of 8.49% were computed by ORS. After the adjustments for the proposed margin increase of \$8,633,538, net income for return increased to \$47,998,627. The rate of return on rate base computed by ORS after the adjustments for the proposed increase is 8.15%. The return on common equity is 10.25%.

**Schedule 2** presents an explanation of the accounting and pro forma adjustments ORS recommends for the Company's Monitoring Report to conform to S.C. Code Ann. §§ 58-5-430 and 58-5-440. For comparative purposes, the adjustments of both the Company and ORS are presented on Schedule 2.

## Capital Structure

S.C. Code Ann. § 58-5-440 contains requirements for the March Monitoring Report and states, "(1) if the utility's earnings exceed the upper end of the range established in the order, the utility shall calculate the reduction in revenue required to lower its return on equity to the midpoint of the range established in the order; or (2) if the utility's earnings are below the lower range established in the order, the utility shall calculate the additional revenue required to increase its return on equity to the midpoint of the range established in the order." The range is 9.75% to 10.75% with a midpoint of 10.25% return on equity.

**Schedule 3** presents the calculation of the weighted cost of capital used by SCE&G in calculating its return on common equity both before and after its adjustments for the proposed margin increase. The rate base, as shown on Schedule 1, is allocated between long-term debt and common equity using the Company's as filed capital structure. The amount of total income for return necessary to cover an embedded cost rate of 5.86% on long-term debt is computed to be \$16,510,850. The remainder of the total income for return of \$26,086,704 is income to common equity. This produced a return of 8.49% on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments, prior to the proposed increase, is 7.23%. The cost of capital after the proposed increase equals 8.15%.

## Rate Design and Allocation of Additional Revenue

S.C. Code Ann. § 58-5-440 states, "The proposed rate changes, filed by the utility, shall conform as nearly as is practicable with the revenue allocation principles contained in the most recent rate order." ORS has reviewed and agrees that the Company's proposed tariffs conforms as nearly as practicable to the revenue allocation principles set out in the Company's most recent rate order, which is Commission Order No. 2005-619 in Docket No. 2005-113-G. If the Commission approves the findings of ORS's examination, the Company would then apply the change in revenue amount in proportion to the Company's Request using the same criteria. ORS will verify the new rates generate the approved revenue change.

## Revenue Verification

ORS verified the approved rates for April 1, 2016 through March 31, 2017 reflect actual revenues generated during the Review Period. Additionally, ORS verified the proposed revised tariffs in Exhibit B of SCE&G's proposed rate adjustments will generate additional revenues of \$9,022,098. ORS's review determined the retail revenue target increase is \$8,633,538 instead of \$9,022,098 as proposed by the Company (See Exhibit A of the Company's Request). ORS reduced the Company's Request by \$388,560 or 4.3%. The results of ORS's examination are shown on Schedule 1.

## Conclusions

ORS reviewed SCE&G's Monitoring Report and conducted an examination of the Company's books and records. ORS recommends the revenue change requested by SCE&G be reduced to \$8,633,538. The primary adjustment differences are related to:

- Extend the amortization period of the Weather Normalization Adjustment to five years;
- Removal of expenses that could not be verified due to lack of supporting documentation;
- Removal of expenses that were outside of the Review Period;
- Removal of travel and meal expenses incurred for non-SCE&G employees; and
- Removal of expenses related to other SCANA business units.

# RegulatoryStaff.SC.GOV

Office of Regulatory Staff

1401 Main Street

Suite 900

Columbia, SC 29201



## Schedule 1

**South Carolina Electric & Gas Company, Docket No. 2017-6-G**  
**Operating Experience - Total Gas**  
**For the Twelve-Month Period Ended March 31, 2017**

| <u>Description</u>                     | <u>Per<br/>Regulatory<br/>Books</u> | <u>Accounting<br/>&amp; Pro Forma<br/>Adjustments</u> | <u>As<br/>Adjusted</u> | <u>Total<br/>Proposed<br/>Increase/<br/>(Decrease)</u> | <u>Total After<br/>Proposed<br/>Increase/<br/>(Decrease)</u> |
|--|-------------------------------------|---|------------------------|--|--|
| <b><u>Operating Revenues</u></b>       | \$ 384,632,624                      | \$ 1,036,457 (A)                                      | \$ 385,669,081         | \$ 8,633,538 (M)                                       | \$ 394,302,619   |
| <b><u>Operating Expenses:</u></b>      |                                     |   |                        |  |  |
| O&M Expenses - Cost of Gas             | 194,635,257                         | 0   | 194,635,257            | 0  | 194,635,257  |
| O&M Expenses - Other                   | 71,816,842                          | 1,974,682 (B)   | 73,791,524             | 0  | 73,791,524   |
| Dep. & Amort. Expenses                 | 28,835,194                          | 1,367,268 (C)   | 30,202,462             | 0  | 30,202,462   |
| Taxes Other Than Income                | 27,505,531                          | 2,658,784 (D)   | 30,164,315             | 44,892 (N)   | 30,209,207   |
| State Income Taxes                     | 1,573,540                           | (246,553) (E)   | 1,326,987              | 429,432 (O)  | 1,756,419  |
| Federal Income Taxes                   | 15,194,518                          | (1,639,580) (F)                                       | 13,554,938             | 2,855,725 (P)  | 16,410,663   |
| <b><u>Total Operating Expenses</u></b> | <u>339,560,882</u>                  | <u>4,114,601</u>                                      | <u>343,675,483</u>     | <u>3,330,049</u>                                       | <u>347,005,532</u>   |
| <b><u>Total Operating Income</u></b>   | <u>45,071,742</u>                   | <u>(3,078,144)</u>                                    | <u>41,993,598</u>      | <u>5,303,489</u>                                       | <u>47,297,087</u>  |
| Customer Growth                        | 829,203                             | (56,521) (G)  | 772,682                | 97,584 (Q)   | 870,266  |
| Interest on Customer Deposits          | (168,726)                           | 0   | (168,726)              | 0  | (168,726)  |
| <b><u>Net Income for Return</u></b>    | <u>45,732,219</u>                   | <u>(3,134,665)</u>                                    | <u>42,597,554</u>      | <u>5,401,073</u>                                       | <u>47,998,627</u>  |
| <b><u>Rate Base:</u></b>               |                                     |   |                        |  |  |
| Gross Plant in Service                 | 1,155,400,904                       | (1,288,639) (H)                                       | 1,154,112,265          | 0  | 1,154,112,265  |
| Reserve for Depreciation               | 437,512,575                         | 113,653 (I)   | 437,626,228            | 0  | 437,626,228  |
| Net Plant in Service                   | 717,888,329                         | (1,402,292)   | 716,486,037            | 0  | 716,486,037  |
| Construction Work in Process           | 11,141,979                          | (9,257) (J)   | 11,132,722             | 0  | 11,132,722   |
| Accum. Deferred Income Taxes           | (159,621,800)                       | 0   | (159,621,800)          | 0  | (159,621,800)  |
| Environmental Costs                    | 9,440,621                           | 0   | 9,440,621              | 0  | 9,440,621  |
| Pension Deferral                       | 6,242,450                           | 0   | 6,242,450              | 0  | 6,242,450  |
| OPEB's                                 | (15,401,785)                        | (21,265) (K)  | (15,423,050)           | 0  | (15,423,050)   |
| Injuries & Damages                     | (949,826)                           | 0   | (949,826)              | 0  | (949,826)  |
| Materials & Supplies                   | 20,406,203                          | 0   | 20,406,203             | 0  | 20,406,203   |
| Total Working Capital                  | 8,977,105                           | 246,835 (L)   | 9,223,940              | 0  | 9,223,940  |
| Prepayments                            | 12,018,691                          | 0   | 12,018,691             | 0  | 12,018,691   |
| Average Tax Accruals                   | (11,833,616)                        | 0   | (11,833,616)           | 0  | (11,833,616)   |
| Customer Deposits                      | (8,169,348)                         | 0   | (8,169,348)            | 0  | (8,169,348)  |
| <b><u>Total Rate Base</u></b>          | <u>590,139,003</u>                  | <u>(1,185,979)</u>                                    | <u>588,953,024</u>     | <u>0</u>   | <u>588,953,024</u>   |
| <b><u>Rate of Return</u></b>           | <u>7.75%</u>                        |   | <u>7.23%</u>           |  | <u>8.15%</u>   |
| <b><u>Return on Equity</u></b>         | <u>9.48%</u>                        |   | <u>8.49%</u>           |  | <u>10.25%</u>  |



**South Carolina Electric Gas Company, Docket No. 2017-6-G**  
**Explanation of Accounting and Pro Forma Adjustments - Gas Operations**  
**For the Twelve-Month Period Ended March 31, 2017**

**Schedule 2**  
**1 of 2**

| Adj #   | Description  | Operating Revenues<br>\$ | Other O&M Expenses<br>\$   | Depreciation & Amortization Expenses<br>\$ | Taxes Other Than Income<br>\$ | State Income Taxes @ 5.0%<br>\$ | Federal Income Taxes @ 35%<br>\$ | Customer Growth<br>\$ | Gross Plant in Service<br>\$ | Reserve for Depreciation<br>\$ | Construction Work in Process<br>\$ | OPEB's<br>\$         | Total Working Capital<br>\$ |
|---|--|--------------------------|----------------------------|--|-------------------------------|---------------------------------|----------------------------------|-----------------------|------------------------------|--------------------------------|------------------------------------|----------------------|-----------------------------|
| <b>Accounting &amp; Pro Forma Adjustments</b> |  |                          |                            |  |                               |                                 |                                  |                       |                              |                                |                                    |                      |                             |
| 1   | Annualize Wages, Benefits, and Payroll Taxes<br>Per Company<br>Per ORS               |                          | 4,691,036<br>4,691,036     |  | 331,545<br>331,545            | (251,129)<br>(251,129)          | (1,670,008)<br>(1,670,008)       |                       |                              |                                |                                    |                      | 586,380<br>586,380          |
| 2   | Normalize Incentive Compensation<br>Per Company<br>Per ORS                           |                          | (2,304,065)<br>(2,304,065) |  | (153,719)<br>(153,719)        | 122,889<br>122,889              | 817,213<br>817,213               |                       |                              |                                |                                    |                      | (288,008)<br>(288,008)      |
| 3   | Remove Employee Clubs and Service Awards<br>Per Company<br>Per ORS                   |                          |                            | (14,340)<br>(14,340)                       |                               | 717<br>717                      | 4,768<br>4,768                   |                       | (587,903)<br>(587,903)       | (225,860)<br>(225,860)         | (1,058)<br>(1,058)                 |                      |                             |
| 4   | Recognize Property Retirements, Depreciation Reserves<br>Per Company<br>Per ORS      |                          |                            |  |                               |                                 |                                  |                       | (708,935)<br>(708,935)       | (708,935)<br>(708,935)         |                                    |                      |                             |
| 5   | Recognize Property Additions/Adjustments, Plant In Service<br>Per Company<br>Per ORS |                          |                            |  |                               |                                 |                                  |                       | 8,199<br>8,199               |                                | (8,199)<br>(8,199)                 |                      |                             |
| 6   | Annualize Depreciation-Reserve Adjustment<br>Per Company<br>Per ORS                  |                          |                            | 838,106<br>838,106                         |                               | (41,905)<br>(41,905)            | (278,670)<br>(278,670)           |                       |                              | 1,048,448<br>1,048,448         |                                    |                      |                             |
| 7   | Annualize Property Taxes<br>Per Company<br>Per ORS                                   |                          |                            |  | 2,475,544<br>2,475,544        | (123,777)<br>(123,777)          | (823,118)<br>(823,118)           |                       |                              |                                |                                    |                      |                             |
| 8   | Annualize Customer Awareness Campaign Expenses<br>Per Company<br>Per ORS             |                          | (257,032)<br>(257,032)     |  |                               | 12,852<br>12,852                | 85,463<br>85,463                 |                       |                              |                                |                                    |                      | (32,129)<br>(32,129)        |
| 9   | Annualize Health Care Expenses<br>Per Company<br>Per ORS                             |                          | 23,659<br>23,659           |  |                               | (1,183)<br>(1,183)              | (7,867)<br>(7,867)               |                       |                              |                                |                                    |                      | 2,957<br>2,957              |
| 10  | Annualize Other Post-Employee Benefits<br>Per Company<br>Per ORS                     |                          | 34,438<br>34,438           |  |                               | (1,722)<br>(1,722)              | (11,451)<br>(11,451)             |                       |                              |                                |                                    | (21,265)<br>(21,265) | 4,305<br>4,305              |
| 11  | Annualize Insurance Expense<br>Per Company<br>Per ORS                                |                          | (50,983)<br>(50,983)       |  |                               | 2,549<br>2,549                  | 16,952<br>16,952                 |                       |                              |                                |                                    |                      | (6,373)<br>(6,373)          |
| 12  | Tax Effect of Annualized Interest<br>Per Company<br>Per ORS                          |                          |                            |  |                               | 1,654<br>1,660                  | 10,999<br>11,041                 |                       |                              |                                |                                    |                      |                             |

**South Carolina Electric Gas Company, Docket No. 2017-6-G**  
**Explanation of Accounting and Pro Forma Adjustments - Gas Operations**  
**For the Twelve-Month Period Ended March 31, 2017**

**Schedule 2**  
**2 of 2**

| Adj #   | Description   | Operating Revenues<br>\$ | Other O&M Expenses<br>\$ | Depreciation & Amortization Expenses<br>\$ | Taxes Other Than Income<br>\$ | State Income Taxes @ 5.0%<br>\$ | Federal Income Taxes @ 35%<br>\$ | Customer Growth<br>\$ | Gross Plant in Service<br>\$ | Reserve for Depreciation<br>\$ | Construction Work in Process<br>\$ | OPEB's<br>\$    | Total Working Capital<br>\$ |
|---|---|--------------------------|--------------------------|--|-------------------------------|---------------------------------|----------------------------------|-----------------------|------------------------------|--------------------------------|------------------------------------|-----------------|-----------------------------|
| 13  | Pension - Current Expense<br>Per Company<br>Per ORS                             |                          | (95,284)<br>(95,284)     |  |                               | 4,764<br>4,764                  | 31,682<br>31,682                 |                       |                              |                                |                                    |                 | (11,911)<br>(11,911)        |
| 14  | Remove Non-Recurring Rental Revenue<br>Per Company<br>Per ORS                   | (36,156)<br>(36,156)     |                          |  | (189)<br>(188)                | (1,798)<br>(1,798)              | (11,959)<br>(11,959)             |                       |                              |                                |                                    |                 |                             |
| 15  | WNA - Amortization of Deferral<br>Per Company<br>Per ORS                        |                          |                          | 980,202<br>543,502                         |                               | (49,010)<br>(27,175)            | (325,917)<br>(180,714)           |                       |                              |                                |                                    |                 |                             |
| 16  | Annualize Revenue Increase/(Decrease)<br>Per Company<br>Per ORS                 | 1,072,613<br>1,072,613   |                          |  | 5,602<br>5,602                | 53,351<br>53,351                | 354,781<br>354,781               |                       |                              |                                |                                    |                 |                             |
| 17  | Remove Non-Allowable Expenses for Ratemaking Purposes<br>Per Company<br>Per ORS |                          | (19,401)<br>(67,087)     |  |                               | 970<br>3,354                    | 6,451<br>22,307                  |                       |                              |                                |                                    |                 | (2,425)<br>(8,386)          |
| 18  | Adjust for Customer Growth<br>Per Company<br>Per ORS                            |                          |                          |  |                               |                                 |                                  | 0<br>(56,521)         |                              |                                |                                    |                 |                             |
| <b>Total Company Accounting &amp; Pro Forma Adjustments</b> |   | <b>1,036,457</b>         | <b>2,022,368</b>         | <b>1,803,968</b>                           | <b>2,658,783</b>              | <b>(270,778)</b>                | <b>(1,800,681)</b>               | <b>-</b>              | <b>(1,288,639)</b>           | <b>113,653</b>                 | <b>(9,257)</b>                     | <b>(21,265)</b> | <b>252,796</b>              |
| <b>Total ORS Accounting &amp; Pro Forma Adjustments</b>     |   | <b>1,036,457</b>         | <b>1,974,682</b>         | <b>1,367,268</b>                           | <b>2,658,784</b>              | <b>(246,553)</b>                | <b>(1,639,580)</b>               | <b>(56,521)</b>       | <b>(1,288,639)</b>           | <b>113,653</b>                 | <b>(9,257)</b>                     | <b>(21,265)</b> | <b>246,835</b>              |
|   |   | (A)                      | (B)                      | (C)  | (D)                           | (E)                             | (F)                              | (G)                   | (H)                          | (I)                            | (J)                                | (K)             | (L)                         |

**Total Proposed Increase/(Decrease)**

|   |   |                        |          |          |                  |                    |                        |                   |          |          |          |          |          |
|---|---|------------------------|----------|----------|------------------|--------------------|------------------------|-------------------|----------|----------|----------|----------|----------|
| 19  | Adjust Revenue, Taxes & Customer Growth for the Proposed Increase<br>Per Company<br>Per ORS | 9,022,098<br>8,633,538 |          |          | 47,122<br>44,892 | 448,749<br>429,432 | 2,984,179<br>2,855,725 | 101,915<br>97,584 |          |          |          |          |          |
| <b>Total Company Proposed Increase/(Decrease)</b> |   | <b>9,022,098</b>       | <b>0</b> | <b>0</b> | <b>47,122</b>    | <b>448,749</b>     | <b>2,984,179</b>       | <b>101,915</b>    | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
| <b>Total ORS Proposed Increase/(Decrease)</b>     |   | <b>8,633,538</b>       | <b>0</b> | <b>0</b> | <b>44,892</b>    | <b>429,432</b>     | <b>2,855,725</b>       | <b>97,584</b>     | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> | <b>0</b> |
|   |   | (M)                    |          |          | (N)              | (O)                | (P)                    | (Q)               |          |          |          |          |          |

Schedule 3

South Carolina Electric & Gas Company, Docket No. 2017-6-G  
Weighted Cost of Capital  
For the Twelve-Month Period Ended March 31, 2017

| Description     | Capital Structure | Ratio   | Regulatory Per Books |                      |                     |                   | As Adjusted    |                      |                     |                   | After Proposed Increase/(Decrease) |                      |                     |                   |
|-----------------|-------------------|---------|----------------------|----------------------|---------------------|-------------------|----------------|----------------------|---------------------|-------------------|------------------------------------|----------------------|---------------------|-------------------|
|                 |                   |         | Rate Base            | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base      | Embedded Cost/Return | Overall Cost/Return | Income For Return | Rate Base                          | Embedded Cost/Return | Overall Cost/Return | Income For Return |
|                 |                   |         |                      |                      |                     |                   |                |                      |                     |                   |                                    |                      |                     |                   |
| Long-Term Debt  | \$ 4,928,770,000  | 47.84%  | \$ 282,322,499       | 5.86%                | 2.80%               | \$ 16,544,098     | \$ 281,755,127 | 5.86%                | 2.80%               | \$ 16,510,850     | \$ 281,755,127                     | 5.86%                | 2.80%               | \$ 16,510,850     |
| Preferred Stock | 100,000           |         |                      |                      |                     |                   |                |                      |                     |                   |                                    |                      |                     |                   |
| Common Equity   | 5,373,018,414     | 52.16%  | 307,816,504          | 9.48%                | 4.95%               | 29,188,121        | 307,197,897    | 8.49%                | 4.43%               | 26,086,704        | 307,197,897                        | 10.25%               | 5.35%               | 31,487,777        |
| Totals          | \$ 10,301,888,414 | 100.00% | \$ 590,139,003       |                      | 7.75%               | \$ 45,732,219     | \$ 588,953,024 |                      | 7.23%               | \$ 42,597,554     | \$ 588,953,024                     |                      | 8.15%               | \$ 47,998,627     |